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COP - ConocoPhillips at Barclays CEO Energy-Power Conference

EVENT DATE/TIME: SEPTEMBER 06, 2017 / 1:45PM GMT

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PRESENTATION

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

We are extremely happy to have Matt Fox, the Executive Vice President, Strategy, Exploration and Technology, with us. ConocoPhillips over the last several years, has seen dramatic transformation and operating costs and the capital requirements continually have come down and become one of the low-cost operators in the industry. And I think Matt has a substantial more insight to share with us in terms of what else that the company will be able to do.

With that, without further delay, let me welcome Matt.

Matt Fox - *ConocoPhillips - EVP of Strategy, Exploration and Technology*

Thanks, Paul, and good morning, everyone. It's very nice to be here. So I'm going to focus my remarks on the company's strategy and our value proposition. And I'm going to be making some forward-looking statements as you would expect. This is designed by our lawyers as an eye test. That's interesting. I don't know what you guys feel about eye tests. I'm always a bit conflicted when I have an eye test. I want to get the answers right, but I really want to win the glasses as we have -- so you can make your own choices, but we will be making forward-looking statements here.

So talking about the company's strategy. Basically, the strategy is built on four fundamental principles. That's where we're going to have a lower breakeven, a lower Brent prize required to cover the capital and the dividend. We're going to have a low cost of supply portfolio. We're going to have flexibility in our capital program, and we're going to have a strong balance sheet. Those are the four fundamental principles that the strategy is designed around. And it's designed to be resilient through the price cycles. So we've been pretty clear, as you can see in the top left here, of what our priorities will be as we move through the cycles. So we're in the middle of that cycle just now, somewhere in the low 50s, and we're being very explicit in laying out these 5 priorities that you can see across the bottom here for allocation of cash.

We're going to spend the capital that we need to maintain flat production, and that's somewhere around $4.5 billion. This year, we'll spend $4.8 billion and we'll actually grow by about 3% on an underlying basis.

And we're going to grow the dividend annually. That's the second priority for the use of cash. We're going to take our debt down to $15 billion. We peaked at about $30 billion of debt on the balance sheet. We already have net debt below $15 billion, and our intention is to take it to a balance sheet debt of $15 billion by 2019 as it makes sense to pay off that debt.

We're committed to a $6 billion cap -- buyback program as a fourth priority. And we say we're going to $3 billion this year, and we're on pace to do that and then $3 billion spread across 2018 and 2019.

Then our fifth priority is to allocate capital for disciplined production growth and more specifically for disciplined expansion of cash from operations. We're more focused on expanding cash from operations than just growing production. So we can do all of that at $50 a barrel These principles give us real clarity on the priorities for the company as we pass through price cycles.

And this strategy results in a lot of resilience to the downside and a lot of exposure to upside prices. So our downside is protected at lower prices because our breakeven is below $50 per barrel. We have now gone through 4 quarters in a row where we've generated free cash flow at prices of around $50 a barrel. So we're not just saying that our breakeven is below $50. We've demonstrated that now for 4 quarters in a row. That's partly because we've lowered the capital intensity of the company dramatically.

Back in 2014, we were spending $17 billion of capital. This year, it will be less than $5 billion. Our outlook just now is for $4.8 billion. And that's one of the reasons the breakeven has dropped so much. Another reason is we've reduced our operating costs from close to $10 billion to less than $6 billion over that same period.

We also have protection to low prices because the portfolio that we have, and I'm going to describe this more in a moment, has a very low cost of supply, which means incremental investments that we make to offset declining production or to grow production modestly, they're going to generate attractive returns at very -- even at very low prices. I'll explain that more in a few moments. We've got lot of flexibility in the capital program, which gives us protection to downside. And we have -- now with the work that we've done to repair the balance sheet, we've got very good, strong balance sheet with a net debt below $15 billion.

But it's not just resilience to the downside, we do have a lot of torque to the upside. We've got very oil-weighted portfolio, either oil or LNG linked to oil prices. We have been shrinking our exposure to North American natural gas, for example, so we're very weighted to oil price. We can increase capital the same as we can decrease it to take advantage of -- if we believe we're in a sustained high price environment.

Almost all of the fiscal regimes that we're in are in the form of tax and royalty, so we do get to keep a lot of the upside in those fiscal regimes, and very little of our production is in production sharing contracts. We are unhedged, so we have full exposure to upside in price if that shows up. And we have contingent payments that we have negotiated on several of our recent transactions so that we retain upside from the assets that we sold under certain price conditions.

So we're very well protected in the downside, and we have a lot of exposure to the upside. And that's really because of the nature of the portfolio that we have.

It's a very different portfolio from many of our E&P competitors. It's diverse. It's not diffuse. We're not spread all over the world in 30 different countries. In fact, we're focused on less than 10 countries around the world. It's diverse in the nature of the megatrends that we're involved in. If you look at the chart on the right, that's our cost of supply curve, fully burdened with the cost of G&A and transportation differentials and foreign exchange rates and anticipated escalation in services costs. And you can see that that represents 14 billion barrels of resource with the cost of supply of less than $50 a barrel and with an average cost of supply of $35 a barrel, Brent fully burdened.

And you can see there's a mixture here of assets that are orange there that are the LNG and oil sands, which are low-to-zero decline in production, and that require very little capital to sustain that production.

And green, our conventional portfolio, which is assets like Alaska, Europe, Malaysia, Indonesia, China. And then you can see in yellow, our unconventional portfolio. Now that's the biggest part of this portfolio. It's a 6 -- a bit more than 6 of the 14 billion barrels is in the unconventionals. But you can see that there's competitive conventional and LNG and oil sands assets within this portfolio as well. So it's very differentiated, and with diversification that adds value and that has low cost of supply throughout the different megatrends.

And we're not just differentiated in the portfolio. We also have a differential payout policy for shareholders. We have committed to returning at least 20% to 30% of cash to shareholders before we start reinvesting capital in the portfolio. This year, it will be significantly more than that because of the $3 billion.

So for this year, if you look at the combination of the dividend yield, about 2.3% and the $3 billion of buybacks, which would represent about -- something above 5%. You can see that compared to this peer group, and this peer group is the 5 big integrated companies and 5 E&P peers, the total payout is very competitive when you combine the dividend and the share buybacks.

We believe that for an E&P company, this is the right way to give cash back to shareholders, is through a combination of an affordable growing dividend and supplemented by buybacks. So this year alone, we'll buy back more than 5% of our stock, which in fact will offset the increase in dividend that we introduced earlier this year, the 6% increase in dividend. So we think this is a sensible way for disciplined E&P companies to give back cash to shareholders.

So just to finish up here and before we go to a conversation with Paul and to your questions, we think that we have transformed ConocoPhillips into a much stronger company to withstand the cycles that we believe are coming in this industry. We reduced our breakeven price from over $75 a barrel in 2014 to less than $50. And that's not aspirational. That has been demonstrated for 4 quarters in a row, and we're continuing to drive that breakeven price down. We've lowered the capital intensity to, first, say, flat production, to less than $5 billion, more like $4.5 billion a year. We've created a lot of flexibility in our capital program. We had major projects in execution through '13, '14, '15 and into '16. Those are behind us now. So we have a lot of flexibility in the capital program. And we've got 14 billion barrels of resource with an average cost of supply of $35 a barrel. That's the transformation of the underlying asset-based cost structure and breakeven of the company.

We've done that by accelerating some actions that we needed to take to make this transformation. We've sold this year alone more than $16 billion worth of assets from much of our Canada position, our San Juan gas position, and other gas assets in the Lower 48. We're not quite finished with that yet. There's probably about another $500 million or so of asset sales that we will announce this year, but that will aggregate to more than $16 billion of asset sales.

Those proceeds have been given back to shareholders, $6 billion in the buyback program between this year and next year, $3 billion this year and then $3 billion over the next 2 years. Our margins have improved. We chose those assets to sell for several reasons, but one of the reasons was these are low-margin assets. So the underlying margins of the company have been improved by the rationalization of the portfolio. And as I mentioned earlier, we've got very strong leverage to the upside, so we're accelerating the value proposition.

Now unlike many of our E&P peers, we're focused on free cash flow generation and returns. We're not focused on production growth for its own sake. That is -- and you won't hear us setting production growth targets. That's not what it's about for us. It's all about returns and using that free cash flow wisely. We do have a very strong payout ratio if you aggregate the dividends and the buybacks. And with this low cost of supply portfolio, with a low breakeven, with the flexibility of a strong balance sheet, this is what allows us to deliver double-digit returns to shareholders through the cycle, and that's what we are determined to do.

Okay, that was all I had for prepared presentation.

QUESTIONS AND ANSWERS

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

If there is any questions, please raise your hand but wait until there is a microphone. There's a question at the back.

Unidentified Analyst

So as you were going through the capital allocation priorities, you didn't mention M&A at all. Could you explain your thinking on that? And maybe talk about why you guys wouldn't look to consolidate one of the basins in the U.S. that has really attractive returns at $40 or $45 oil.

Matt Fox - *ConocoPhillips - EVP of Strategy, Exploration and Technology*

Yes, we didn't mention M&A. We sometimes talk about M&A as priority 6. It's certainly not a priority for us, and the reason is that the amount of value that exists inside the organic portfolio, when you have an average cost of supply of $35 a barrel, that you can invest in organically, it's really difficult for acquisitions to compete against that. So for example, if we were looking to expand our position in the Permian, in the sweet spot of the Permian and the competitive going rate was $35,000 or $40,000 an acre to do that, that adds about $15 a barrel to the cost of supply on a net present value basis. That would take a top-tier position in the Permian, that may have $40 cost of supply and make it $55 cost of supply, and that just doesn't compete with investment in the portfolio. So as much as we might like to expand our position in, for example, the Permian, we don't think it's the best use of our shareholders' cash to do that. Now that's not to say never say never. There could be circumstances where it makes sense to do that. But as we look at that just now with the asset prices at the moment, we think we have better use of our shareholders' money is to put it into the portfolio.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

There's a question in the middle.

Unidentified Analyst

If I could just follow-up on the M&A question. In a different type of possible M&A, consolidation amongst majors is a way to get cost out. Do you see that as something that could happen in the next couple of years? Or are there structural or other reasons why that is less likely?

Matt Fox - *ConocoPhillips - EVP of Strategy, Exploration and Technology*

Yes, I think under normal circumstances the cycle that we've been passing through would have resulted in consolidation. It's somewhat surprising that that hasn't shown up yet. And it may show up in the future. Asset prices and equity prices have remained elevated to the -- I think to the extent that it has made it difficult for synergies alone to cover the valuation gaps. I think that's the way most people are looking at -- I assume that that's the way most people are looking at it and that's why it hasn't happened yet. It may happen in the future, but the normal cycle has sort of been disrupted by the asset prices staying high.

Unidentified Analyst

I think in prior presentations, you'd highlighted a allocation slide where you moved capital from offshore into onshore. Does that still hold true? Or has the cost come down significantly in offshore that, that's becoming to be interesting for you in capital deployment?

Matt Fox - *ConocoPhillips - EVP of Strategy, Exploration and Technology*

So our capital program this year is about $4.8 billion. About 1/3 of that is going to our unconventional position in the U.S. and Canada. The rest is going to our conventionals and oil sands and LNG. So they are competing for capital. As you could see in the -- on this cost of supply chart on the right here, the conventional portfolio does compete for capital as does the sustaining capital really for the LNG and oil sands projects.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

Matt, since that you're talking about oil sands, after the recent transaction of your sale of the Deep Basin and FCCL in Canada, the only thing that you left is really just the Surmont, which is in the oil sands. Do you view or rank Surmont as part of your long-term core assets? If yes, then why?

Matt Fox - *ConocoPhillips - EVP of Strategy, Exploration and Technology*

So what we retained in Canada was the Surmont asset and our Montney position, and the -- I want to talk a little bit about the Montney position because it's a really good unconventional position in the Montney. But I'll answer your question about Surmont first. And Surmont is a very good asset. We are the operator there with 50% equity. It has a very competitive steam-oil ratio. And at steady state, it's consistently over the last 5 years been one of the top 3 oil sands SAGD assets, because the geology is very good. So it's a very competitive SAGD position. And the -- we have some work to do with the Surmont asset because it was designed to use synthetic crude as a diluent to dilute the bitumen. And I won't bore you with the details, but over the last year or so, that's become a disadvantaged way to transport bitumen. So we're going to modify Surmont so that it can be -- use condensate as a diluent or a synthetic crude and then the choice can be made as to which is the optimum. So we have some work to do there to improve the netbacks. But then the sustaining capital is very low to maintain production, and we have really good debottlenecking opportunities available at very low cost of supply. So we see Surmont as an asset that we can enhance the value, bring down the breakeven price, and we'll compete for capital on a -- both a sustaining capital basis and the debottlenecking basis. So right now, it's about 75,000 barrels a day of net capacity that we have, can easily see that expanding to about 100,000 barrels a day net. I don't see it, at least in the current outlook for prices, I don't see it expanding beyond that. In the Montney, we have a really strong position that we have aggregated quietly over the last few years in the liquids-rich part of the Montney. That we see a huge amount of potential, a very low cost of supply production there. So -- and that was a very deliberate carve-out from the Cenovus deal, was to retain that Blueberry acreage. We call it Blueberry, that's the area in the Montney. So we see that as one of the really strong emerging plays, that liquids-rich window in the Montney.

Unidentified Analyst

Can you talk about how you see supply and demand in the LNG market over the next couple of years? There seems to be consensus that next 1, 2, 3 years, we may be in oversupply but then after that, we go back to being undersupplied. What do you think the time frame is on the market coming back into balance? And how are you guys positioning yourselves?

Matt Fox - *ConocoPhillips - EVP of Strategy, Exploration and Technology*

So our view would be that the -- it will be more than 2 or 3 years before we come back into balance, probably more the first half of the 2020s before we really are in a balanced position. So market signals will need to be sent before that to make sure that there is adequate LNG in development to meet that increase in demand. So I think that those signals sort of bear that there's a competition clearly just now to try to establish what is the most competitive next tranche of cost of supply for LNG, and that will play out over the next few years. Clearly, Qatar has put a marker down with their announced intention to expand their LNG position from 77 million tons a year to 100 a year. And that's a very competitive source of supply for LNG because of the liquids yield and the existing infrastructure. So I think it's going to be a low price environment for spot crudes. Virtually, all of our LNG is tied to JCC all the way through to 2023 or so. So we will be more affected by oil prices than by spot LNG prices. But I think it's going to be a market that's very well supplied for the next certainly 5 years or so.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

Actually talking about global LNG market. Matt, from a strategy standpoint for the future FID decision, if you go ahead with any new LNG project, how is that processed? Is it still based on the assumption that the curing mechanism is based on the long-term take-or-pay contract linked to oil prices? Or that you will evaluate based on the assumption you will be linked to some oil prices and may be the curing mechanism with some pace by the U.S. and the (inaudible). How does that process work for you guys?

Matt Fox - *ConocoPhillips - EVP of Strategy, Exploration and Technology*

It's not clear just now how exactly that process is going to work out. That will be determined through conversations with the suppliers and the users of LNG. It's likely that there will be potentially several different pricing mechanisms and perhaps even within the same contract. So I think that the pricing mechanism will evolve over time. But it's hard to say just now exactly where it's going, if it's going to be one model or if there will be multiple ways of pricing LNG in the future. I think it's clear that those conversations need to happen between the buyers and suppliers for the next tranche of LNG that's going to come in the market in the next decade.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

Any questions?

I actually have 2 more quick ones. One is there's some debate about the gas/oil ratio. One of your competitors in the Permian has seen a substantial drop in their oil ratio or that I should say an increase in the gas. Wondering that in any of your operations, you have seen whether in Eagle Ford or Bakken, have you seen any issue similar to that? That's the first one. And secondly, in your Permian, you have about 100,000 net acre in land position, and the company had placed the recoverable resource at the 1.8 billion barrel range. But so far, we have not seen any meaningful developments there. So what is the precondition before we would see a more aggressive development trend in your Permian position?

Matt Fox - *ConocoPhillips - EVP of Strategy, Exploration and Technology*

So from a gas/oil ratio perspective, across our unconventional portfolio in 2014, about 20% of our production was gas. In 2017, it's about 19%. So that's across our overall unconventional portfolio. So no significant change and maybe a slight decrease. In our Eagle Ford position in particular, in 2014, it's was 22%. It's about 19% just now. So we're not seeing increases in gas/oil ratio across our portfolio. And so that concern that might be out there isn't manifesting itself in our own portfolio. But in terms of our Permian development plans, today, we are running 3 rigs in the Permian. We still regard ourselves as being in the appraisal and pilot testing phase there. We believe that the approach that we adopted in the Eagle Ford, which was to focus on really understanding how to optimize the development, to maximize the value and maximize the returns, we believe that's the approach we should be taking to the Permian as well. And that's what we're doing. So for us it's not about rushing to grow production in the Permian. It's about doing what we need to do to understand how to maximize returns from our Permian position. When we've got to the place where we feel confident that this is the right way to develop that, then that's when we move into more of a sort of manufacturing and development phase. That worked very well for us in the Eagle Ford. That's why in the Eagle Ford, just now we still have 3,500 premium locations to drill in the sweet spot of the Eagle Ford, when many of our competitors have drilled themselves out of acreage in Eagle Ford and developed inefficiently. And so we think that approach is the right approach for us and that's what we intend to do in the Permian as well.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

Any other questions? If not, we're going to move to the breakout session for any additional questions.

Editor

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